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SUBJECT: DFID'S "COST" INITIATIVE: MORE QUESTIONS THAN ANSWERS

REF: SECSTATE 84287

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¶1. (SBU) Summary: Participants from government, industry and the private sector agreed that transparency is a concern in the construction sector but questioned the value added by DFID's Construction Sector Transparency Initiative (CoST). Econoff raised reftel concerns widely at a June 20, DFID-hosted informational meeting to gather support for the initiative. DFID plans to incorporate participants' feedback in an updated project outline that will form the basis for interested countries to press forward with pilot programs in the fall that will determine if the initiative is viable. The UK announced at the meeting that it would be one of the pilot countries. Vietnam and Tanzania also showed interest. End Summary.

The CoST Initiative

¶2. (U) DFID created this initiative to improve transparency, and thereby reduce opportunities for corruption, in the construction sector. DFID argued that some progress has been made to improve transparency and accountability in international tendering, but this initiative is needed to help in the post-contract period. CoST seeks to build upon the "success" of the Extractive Industries Transparency Initiative (EITI), under which companies and governments in the extractive industries publish what they pay/get for these resources.

¶3. (U) DFID argued that CoST differs from existing anti-corruption initiatives since it brings in a multi-stakeholder approach (governments, companies, civil society). Further, a sectoral approach is necessary because issues differ by sector. Construction is a sector countries and the development banks recognize has great problems. Finally, CoST involves downstream transactions that are not currently addressed through multilateral agreements.

Questions and Challenges

¶4. (U) Discussions at the June 20 meeting raised more

questions than answers. The group of government representatives from countries considering piloting the initiative questioned the boundaries of the initiative) which construction contracts would be covered and how would the initiative mesh with existing country policies and structures? They also questioned the extent of financial disclosures that would be required and the process of implementation (e.g. at country level, what is the appropriate level of authority for the review group within the government?).

15. (U) The construction industry group focused on the potential costs of the initiative and questioned the capacity of governments and the construction sector to implement the initiative. They wanted to make sure the initiative did not duplicate existing structures or delay construction projects. They also questioned the level of authority of the review group and if information disclosed as part of CoST could be used as evidence during contract disputes. If implemented, the industry group thought the oversight group should be independent and have influence, but their material should not be used for audits or prosecutions.

16. (SBU) Potential donors echoed reftel concerns both during the breakout session and, individually, on the margins of the meeting. They sought more definition of the objectives of the initiative (e.g. how does increased transparency translate into less corruption?). They questioned the value added of the initiative and were concerned that the initiative would divert attention, funds, and human resources from existing initiatives. In terms of implementation, they challenged countries' capacity to carry out the initiative and the complicated structure of the proposed review mechanism. Econoff urged pursuing CoST's goals through existing anti-corruption and transparency initiatives within the WTO and the UN Convention on Anti-Corruption. While many

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agreed duplication was a concern, none were familiar enough with these organizations to assess the viability of this suggestion in practice.

DFID's Perspective

17. (SBU) Econoff met with Mary Hunt, Policy Analyst in DFID's Business Alliances Team (responsible for CoST), in advance of the June 20 meeting. In response to reftel points, Hunt recognized some of the challenges of CoST, but argued that the point of the pilots was to determine if the initiative is viable. Hunt agreed that there are far more companies and countries involved in construction than was the case for EITI, but responded that only interested countries would participate. She concurred that building new international structures is cumbersome, but argued that current anti-corruption agreements have not led to better outcomes, and it is envisioned that the initiative would only need to run for a couple years until its concepts are accepted as the norm. Finally, there would likely be costs to donors similar to those for EITI. Hunt's overall argument in response to reftel concerns was that CoST is still in the very early stages, so it should continue to be developed and tested via pilots before deciding if there is sufficient international interest to pursue it further.

18. (SBU) The UK announced at the June 20 meeting that it would be one of the pilot countries. It remains unclear which UK government agency will lead this process, which companies will participate, or what types of information will be disclosed. Ben Mellor, Head of Director's Office for East and Central Africa at DFID told EconOff that DFID would like the UK pilot to be applied to construction projects related to the 2012 London Olympics, but this may prove too difficult to do within HMG.

¶9. (SBU) Hunt was open to the idea of working with other organizations seeking to achieve the same goals as CoST, but she viewed CoST as a way to help countries fulfill transparency commitments made in large international fora, rather than these agreements providing the impetus to get countries to improve transparency in construction. She asked: (1) What specifically do UNCAC and WTO do to encourage transparency in procurement? (2) How do these initiatives lead to better outcomes at the country level? (3) Is there anything specifically focused on implementation of construction projects?; and (4) Is there any flexibility within these structures to employ the multi-stakeholder approach?

Comment

¶10. (SBU) While there was wide skepticism of the viability and usefulness of this initiative, meeting participants agreed with the goal and were generally willing to let DFID try out the proposal in the pilot countries. None offered financial support for this endeavor, however, and DFID made a point of leaving the discussion of costs for future meetings. DFID participants did say that DFID plans to provide some funding. The UK decision to implement a CoST pilot program in the UK could demonstrate the viability) or lack thereof) of this initiative most quickly. The UK will need to address the host of practical questions raised in order to carry out its own pilot. If successful, this could provide a guide for other countries with less institutional capacity.

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